



MEMORANDUM

**Comptroller of the Currency
Administrator of National Banks**

Legislative and Regulatory Activities Division
Washington, DC 20219

To: Public Comment File—Notice of Proposed Rulemaking on Risk-Based Capital Standards: Advanced Capital Adequacy Framework [Basel II] Docket 06-09
From: Ron Shimabukuro, Special Counsel, Legislative and Regulatory Activities Division
Date: September 15, 2006
Subject: Summary of Meeting with the Citigroup, JP Morgan, Wachovia and Washington Mutual

On July 14, 2006, staff of the Office of the Comptroller of the Currency (OCC) met with representatives Citigroup, JP Morgan Chase, Wachovia, Washington Mutual, and the Law Firm of Barnett Siron and Natter (collectively referred to as the Banks) to discuss the interagency notice of proposed rulemaking (Basel II NPR) that would implement a new risk-based capital framework based on the International Convergence of Capital Measurement and Capital Standards, A Revised Framework (Basel II Framework) issued in June 2004, by the Basel Committee on Banking Supervision (BCBS). *See* list of attendees below.

The following issues were raised by the representatives of the Banks with OCC staff.

Representatives from each of the banks stated that while they support adoption of the Basel II Framework in the United States, they have significant concerns about the manner in which the Basel II NPR implements the Advanced Approach for calculating regulatory capital requirements. Their concerns continue to be those described in the prior meeting of May 26, 2006. Generally, the Banks are concerned that the draft NPR does not achieve the underlying objectives of Basel II Framework, i.e., a system that provides appropriate risk sensitivity and imposes reasonable costs. The Banks are also concerned that the Basel II NPR provides banks with little flexibility in terms of the types of systems and methodologies that they must develop and implement. Finally, the Banks are concerned that the approach of the Basel II NPR would require them to develop expensive systems to measure risk in a way would not be useful in any other context because, among other things, the methodology of measuring regulatory capital is too dissimilar from the approach the banks use for economic capital.

The Banks recommended that the Federal banking agencies permit all banks a choice among methodologies in calculating regulatory capital requirements. They believe that this is consistent with the Basel II Framework as it is being implemented in other countries. Accordingly, they request that the Federal banking agencies, in either the Basel II NPR or the Basel IA notice of proposed rulemaking (addressing domestic capital) permit U.S. banking organizations of any size the option of adopting alternative methodologies, including the Standardized Approach under the Basel II Framework.

Alternatively, the Banks recommended that the Federal banking agencies include in the preamble for the Basel II NPR a specific solicitation of comments on whether the agencies should adopt alternative methodologies to that proposed, including the Standardized Approach under the Basel II Framework. This, the Banks felt, would preserve for the Federal banking agencies the ability to adopt such an approach in a final rule after evaluating the comments.

OCC representatives indicated that the OCC would give careful consideration to any comments filed. However, OCC representatives also indicated concern that if the Federal banking agencies, after considering comments, decided to adopt alternative methodologies (such as the Standardized Approach), the implementation of Basel II Framework in the US could be delayed. Such a decision might require an additional round of notice and comment to give interested parties an opportunity to comment on how the Federal banking agencies ought to implement this new approach.

OCC representatives also encouraged the Banks to include in their comments suggestions on how the proposed approach in the Basel II NPR might be adjusted so as to address their specific concerns. However, at this time, OCC representatives said they cannot discuss specific changes that might be made in the language of the Basel II NPR.

List of Attendees

OCC Attendees

Kevin Bailey
John Dugan
James Gillespie
Doug Roeder
Amrit Sekhon
Tommy Snow
John Walsh

Industry Attendees

Jim Garnett
Heather Wingate
Naomi Camper
Adam Gilbert
James Burr
Greg Norwood
William Longbrake
John Robinson
Allison Watson
Jim Sivon

Citigroup
Citigroup
JP Morgan Chase
JP Morgan Chase
Wachovia
Wachovia
Washington Mutual
Washington Mutual
Washington Mutual
Barnett Sivon and Natter